



**MTUBATUBA  
LOCAL MUNICIPALITY**

**FINAL ASSET MANAGEMENT POLICY**

**2017/2018**

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## 1 BACKGROUND OF THE POLICY

This policy is informed by the four Standards of Generally Recognised Accounting Practice (GRAP); the following standards are components of fixed assets i.e.

- a) Property, Plant and Equipment, GRAP 17
- b) Inventories, GRAP 12
- c) Investment Property, GRAP 16 and
- d) Impairment of Non-cash generating assets, GRAP 21

## 2 DEFINITIONS

The following terms are used in this Policy with the meaning specified in the relevant GRAP standards mentioned above:

**"Carrying amount** means the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses;

**Cost** means the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction;

**Depreciable amount** means the cost of an asset, or other amount substituted for cost, less its residual value;

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life;

**Fair value** means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction;

An **impairment loss** of a cash-generating asset means the amount by which the carrying amount of an asset exceeds its recoverable amount;

An **impairment loss** of a non- cash-generating asset means the amount by which the carrying amount of an asset exceeds its recoverable amount;

An **inventory** for the purpose of this policy means land or buildings held for sale or distribution in the ordinary course of operations;

**Investment property** means the property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) Use in the production or supply of goods or services or for administrative purposes, or

(b) Sale in the ordinary course of operations.

**Net realisable value** means the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution;

**Owner-occupied property** means property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes;

**Property, plant and equipment** mean tangible items that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) Are expected to be used during more than one reporting period;

**Recoverable amount** means the higher of a cash-generating asset's net selling price and its value in use;

**Recoverable service amount** means the higher of a non-cash-generating asset's fair value less costs to sell and its value in use;

**The residual value** of an asset means the estimated amount that the Municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life;

**Useful life** means:

- a) the period over which an asset is expected to be available for use by the Municipality, or
- b) the number of production or similar units expected to be obtained from the asset by the Municipality;

### **3 ROLE OF THE MUNICIPAL MANAGER**

As accounting officer of the Municipality, the Municipal Manager shall be the principal custodian of all the Municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

### **4 ROLE OF THE CHIEF FINANCIAL OFFICER**

4.1 The Chief Financial Officer shall be the fixed asset registrar of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.

4.2 No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

## **5 Financial Management**

### **5.1 Pre-Acquisition Planning**

5.1.1 Before a capital project/ asset is included in the budget for approval, a need analysis for the acquisition of an asset, its nature and benefits thereof towards the service delivery imperatives must be performed and demonstrate the following:

- a) The projected cost over all the financial years until the project is operational;
- b) The future operational costs and revenue on the project, including tax and tariff implications;
- c) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- d) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- e) The inclusion of this capital project in the integrated development plan and future budgets: and
- f) Alternatives to this capital purchase.

5.1.2 The Municipal Manager is accountable to ensure the asset controller receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

## 5.2 **Approval to acquire Property Plant and Equipment**

***Money can only be spent on a capital project if:***

- a) The money has been appropriated in the capital budget;
- b) The project, including the total cost, has been approved by the council;
- c) The Chief Financial Officer confirms that funding is available for that specific project; and
- d) Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

## 5.3 **Funding of capital projects:**

- a) Within the municipality's on-going financial, legislative or administrative capacity, the chief financial officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.
- b) The acquisition of assets will not be funded over a period longer than the useful life of that asset.

## 6 **FORMAT OF THE FIXED ASSET REGISTER**

6.1 The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of Generally Recognised Accounting Practice (GRAP) and any other accounting requirements which may be prescribed.

6.2 The fixed asset register shall reflect the following information:

- a) A brief but meaningful description of each asset.
- b) The date on which the asset was acquired or brought into use.
- c) The location of the asset.
- d) The Department(s) and Vote(s) within which the assets will be used.

- e) The title deed number, in the case of fixed property.
- f) The stand number, in the case of fixed property.
- g) Where applicable, the identification number.
- h) The original cost, or the revalued amount, or the fair value if no costs are available.
- i) The (last) revaluation date of the fixed assets subject to revaluation (where applicable).
- j) The revalued value of such fixed assets (where applicable).
- k) Who did the (last) revaluation (where applicable)?
- l) Accumulated depreciation to date (where applicable).
- m) The depreciation charge for the current financial year (where applicable).
- n) The carrying value of the asset.
- o) The method and rate of depreciation (where applicable).
- p) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable).
- q) The source of financing.
- r) The current insurance arrangements.
- s) Whether the asset is required to perform basic municipal services.
- t) Whether the asset has been used to secure any debt, and, if so, the nature and duration of such security arrangements.
- u) The date on which the asset is disposed of.
- v) The disposal price.
- w) The date on which the asset is retired from use, if not disposed of.

6.3 All Heads of Department under whose control any fixed assets shall promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

6.4 A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be

recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.

6.5 A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

## **7 CLASSIFICATION OF FIXED ASSETS**

7.1 In compliance with the requirements of the National Treasury, the Chief Financial Officer of the Municipality shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and Heads of Departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:

### **7.1.1 PROPERTY, PLANT AND EQUIPMENT**

- a) Land (not held as investment assets).
- b) Infrastructure assets (assets which are part of a network of similar assets).
- c) Community assets (resources contributing to the general well-being of the community).
- d) Heritage assets (culturally significant resources).
- e) Other assets (ordinary operational resources).

### **7.1.2 INVENTORY**

- a) Land or building (held for sale).

### **7.1.3 INVESTMENT PROPERTY**

- a) Land or a building (held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both).

## **7.2 INTANGIBLE ASSETS**

- a) An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

b) No intangible item shall be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in GRAP statements dealing with research and development expenses may recommend to the Council that specific development costs be recognised as fixed assets.

## **8 RECOGNITION OF FIXED ASSETS**

- 8.1 The Chief Financial Officer of the Municipality or the delegated person shall ensure that the recognition of property, plant and equipment is in accordance with applicable Standard of GRAP. An asset with a minimum value of **R3 000 (three thousand rand)** shall be recognised as a fixed asset. In addition similar assets of the same sub-category whose individual values, before VAT, are less than R3 000 but cumulatively would exceed R3 000, must be grouped and capitalised under one line item/narration e.g. Total chairs.
- 8.2 No item with an initial cost or fair value of less than R3 000 (three thousand rand) or such other amount as the Council of the Municipality may from time to time determine on the recommendation of the Municipal Manager, shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.
- 8.3 Every Head of Department shall, however, ensure that any item with a value in excess of **R250 (two hundred and fifty rand)**, and with an estimated useful life of more than one year, shall be recorded on a stock sheet. Every Head of Department shall moreover ensure that the existence of items recorded on such stock sheet is verified from time to time, and at least once in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

## **9 MEASUREMENT AT RECOGNITION**

- 9.1 The Chief Financial Officer or delegated official shall ensure that an item of property plant and equipment that qualifies for recognition as an asset is measured at its cost.
- 8.1 The cost of an item of Property, plant and equipment is the cash price equivalent at the recognition date.

- 9.2 Where an asset is acquired at no cost, or for a nominal cost, the Chief Financial Officer or a delegated official shall assign the cost such asset as its fair value as at the date of acquisition.
- 9.3 The cost of an item of property plant and equipment comprises:
  - a) its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates;
  - b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
  - c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

## **10 MEASUREMENT AFTER RECOGNITION**

- 10.1 After recognition as an asset an item of property plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. Awkward
- 10.2 All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation and accumulated impairment losses and in terms of the cost model used by the Municipality.
- 10.3 The only exceptions to this rule shall be revalued assets and heritage assets in respect of which no value is recorded in the fixed asset register

## **11 SAFEKEEPING OF FIXED ASSETS**

- 11.1 Every Head of Department and users shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Department in question.
- 11.2 In exercising this responsibility, every Head of Department shall adhere to any written directives issued by the Municipal Manager to the Department in

question, or generally to all Departments, in regard to the control of or safekeeping of the Municipality's fixed assets.

- 11.3 The CFO or a delegated official by CFO shall issue an asset control sheet (asset inventory list) which shall serve as a control register for all moveable assets of the Municipality
- 11.4 The asset control sheet shall be signed by the responsible officials to confirm the receipt and custody of the list of assets in their offices.

## **12 GENERAL MAINTENANCE OF FIXED ASSETS**

Every Head of Department shall be directly responsible for ensuring that all assets are properly maintained in a manner which will ensure that such assets attain their useful operating lives.

## **13 IDENTIFICATION OF FIXED ASSETS**

- 13.1 The Municipal Manager shall ensure that the Municipality maintains a fixed asset identification system on a designated system which shall be operated in conjunction with its computerised fixed asset register.
- 13.2 The identification system shall be determined by the Municipal Manager, acting in consultation with the Chief Financial Officer and other Heads of Departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the Municipality's audit report(s), and shall be decided upon within the context of the Municipality's budgetary and human resources.
- 13.3 All assets that can be tagged should be tagged when they are received, assets without an asset number should not be processed on a financial system
- 13.4 All infrastructure assets shall be geographically referenced using GIS system, and infrastructure assets should have geographical coordinates.
- 13.5 All infrastructure assets should be unbundled and the CFO or a person delegated by the CFO should prepare a report of all unbundled assets and identify assets that can be unbundled.

13.6 Every Head of Department shall ensure that the asset identification system approved for the Municipality is applied in respect of all fixed assets controlled or used by the Department in question.

#### **14 CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

- 14.1 Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.
- 14.2 Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

## **15 MAINTENANCE PLANS**

- 15.1 The Head of Department must establish a maintenance model and an accompanying maintenance plan for assets per the threshold below requiring maintenance and forward it to the Chief Financial Officer once approved by the Council it for cash flow management purposes.
- 15.2 Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of **R100 000** (one hundred thousand rand) or more is promptly prepared and submitted to the Council of the Municipality for approval.
- 15.3 If so directed by the Municipal Manager, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- 15.4 The Head of Department controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

## **16 DEFERRED MAINTENANCE**

- 16.1 If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council of the Municipality has approved in order to redress such deferral of the maintenance requirements concerned.
- 16.2 If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall determine the useful operating life of the fixed asset in question, if necessary in consultation with the Head of Department controlling or

using such asset, and shall recalculate the annual depreciation expenses accordingly.

## **17 DEPRECIATION OF FIXED ASSETS**

- 17.1 Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately
- 17.2 The Municipality shall allocate the amount initially recognised in respect of an item of property plant and equipment to its significant parts and depreciates separately each part
- 17.3 Depreciation of an asset begins when it is available for use. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.
- 17.4 The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- 17.5 Depreciation shall initially be calculated from the day in which the item of property plant and equipment is acquired or in the case of construction works, the day in which the item of plant and equipment is bought into use until the calendar month concerned. There after the depreciation charged shall be calculated monthly and accounted for against the appropriate line item in the Department or Vote in which the asset is used or consumed
- 17.6 Each Head of Department, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the Department in question or expected to be so controlled or used during the ensuing financial year.
- 17.7 The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in

accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimate and Errors.

17.8 The Chief Financial Officer must take all the following factors into consideration in determining the useful life of an asset:

- i. expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;
- ii. expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;
- iii. technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset;
- iv. Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

## **18 RATE OF DEPRECIATION**

18.1 The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the Municipality's fixed asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives of assets set out in this Policy document.

18.2 In the case of a fixed asset which is not listed in useful lives of assets, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

18.3 In the case of a fixed asset which is not listed in useful lives of assets, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely

pattern in which the asset's economic benefits or service potential will be consumed.

## **19 METHOD OF DEPRECIATION**

- 19.1 The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the Municipality.
- 19.2 The Chief Financial Officer shall review the depreciation method applied to Property, Plant and Equipment at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

## **20 AMENDMENT OF ASSET LIVES AND IMPAIRMENT OF FIXED ASSETS**

- 20.1 The Municipality shall assess at each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality shall estimate the recoverable service amount of the asset.
- 20.2 Irrespective of whether there is any indication of impairment, the Municipality shall also test an intangible asset with an indefinite life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.
- 20.3 In assessing whether there is any indication that an asset may be impaired the Municipality shall consider as a minimum the following indications:

#### **20.3.1 External indicators**

- a) Cessation or near cessation of the demand or need for services provided by the asset; and
- b) Significant long term changes with an adverse effect on the on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment which the Municipality operates.

#### **20.3.2 Internal indicators**

- a) Evidence is available of physical damage of an asset;
- b) Significant long term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future in the extent to which or manner in which the asset is used or expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs or plans to disposes of an asset before the previously expected date;
- c) A decision to halt the construction of the asset before it is complete or in a usable condition;
- d) Evidence is available from internal reporting that indicates that the service performance of an asset is or will be significantly worse than expected

20.4 Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the Council of the Municipality of such amendment.

20.5 The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

20.6 If the value of property plant and equipment has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed

asset shall be fully depreciated in the financial year in which such diminution in value occurs.

- 20.7 Similarly, if an item of property, plant and equipment has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.
- 20.8 Every Head of Department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the Department in question is promptly reported in writing to the Chief Financial Officer, to the Internal Auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.
- 20.9 In all the foregoing instances, the additional depreciation expenses shall be debited to the Department or Vote controlling or using the fixed asset in question.

## **21 DEPRECIATION IN SPECIFIC INSTANCES**

- 21.1 The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.
- 21.2 The Chief Financial Officer shall only employ this method of depreciation if the Head of Department controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:
  - a) estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
  - b) actual statistical information, for each financial year.
- 21.3 The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.
- 21.4 Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have

been adhered to, the Chief Financial Officer shall inform the Council of the Municipality of the decision in question.

## **22 REVALUATION OF FIXED ASSETS**

- 22.1 All land and buildings recorded in the Municipality's fixed asset register shall be revalued with the adoption by the municipality of the new valuation rolls. The Chief Financial Officer shall ensure that the frequency of revaluations is determined by the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required.
- 22.2 The Chief Financial Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the fixed asset concerned.
- 22.3 The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the Department or Vote controlling or using the fixed asset in question.
- 22.4 The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year.
- 22.5 If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the

extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

22.6 Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

## **23 VERIFICATION OF FIXED ASSETS**

23.1 The Chief Financial Officer shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

23.1.1 The Chief Financial Officer may determine to verify all movable assets biannually to keep track of movables assets movements (transfers) in line with its nature.

23.1.2 The Chief Financial Officer may also determine to verify all immovable assets more than once per financial year depending on the nature of immovable assets that the municipality.

23.2 Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end

of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

## **24 DERECOGNITION OF FIXED ASSETS**

- 24.1 The carrying amount of an item of property plant and equipment shall be derecognised:
  - 24.1.1 On disposal, or
  - 24.1.2 When no future economic benefits or service potential are expected from its use or disposal
- 24.2 The gain or loss arising from the de-recognition of an item of property plant and equipment shall be included in surplus or deficit when the item is derecognised
- 24.3 The gain or loss arising from the de-recognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds if any and the carrying amount of an item.
- 24.4 Every Head of Department shall report in writing to the Chief Financial Officer on **31 October and 30 April** of each financial year on all fixed assets controlled or used by the Department concerned which such Head of Department wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various Departments, and shall promptly report such consolidated information to the Executive Committee

of the Municipality, as the case may be, recommending the process of alienation to be adopted.

- 24.5 A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.
- 24.6 A municipality may alienate any other capital asset with a carrying value less than **R5 000 (five thousand rand)**, but provided, that:
  - 24.6.1 The council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services; and
  - 24.6.2 The council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 24.7 Once the item of property, plant and equipment is disposed, the Chief Financial Officer shall delete the relevant records from the fixed asset register.
- 24.8 Transfer of fixed assets to other Municipalities, Municipal Entities (whether or not under the Municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

## **25 OTHER WRITE-OFFS OF FIXED ASSETS**

- 25.1 The item of property, plant and equipment even though fully depreciated shall be written off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the Council of the Municipality.
- 25.2 Every Head of Department shall report to the Chief Financial Officer on **31 October and 30 April** of each financial year on any items of property, plant and equipment which such Head of Department wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall

consolidate all such reports, and shall promptly submit a recommendation to the Executive Committee on the fixed assets to be written off.

- 25.3 The only reasons for writing off property, plant and equipment other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.
- 25.4 In every instance where an asset that is not fully depreciated is due for write off, the Chief Financial Officer shall immediately debit to such Department or Vote, as additional depreciation expenses, the full carrying value of the asset concerned.

## **26 REPLACEMENT NORMS**

The Municipal Manager, in consultation with the Chief Financial Officer and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the Council of the Municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the norms and standards applicable to the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

## **27 INSURANCE OF FIXED ASSETS**

- 27.1 The Municipal Manager shall ensure that all items of property plant and equipment are insured immediately at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.
- 27.2 The Municipal Manager shall recommend to the Council of the Municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

## **28 DISCLOSURES**

28.1 The financial statements shall disclose, for each class of property plant and equipment recognised in the financial statements:

- a) The measurement bases used for determining the gross carrying amount;
- b) The depreciation method used;
- c) The useful lives or depreciation rates used;
- d) The gross carrying amount and accumulated depreciation (aggregated with impairment losses) at the beginning and the end of the period; and
- e) The reconciliation of the carrying amount at the beginning and end of the period showing:
  - i. Additions;
  - ii. Disposals;
  - iii. Acquisitions through entity combination;
  - iv. Increases or decreases resulting from revaluations and impairment;
  - v. losses recognised or reversed directly in net assets;
  - vi. Impairment losses recognised in surplus or deficit in accordance with Standard of GRAP on Impairment of Assets;
  - vii. Impairment recognised in surplus of deficit in accordance with Standard of GRAP on Impairment of Assets;
  - viii. Depreciation;
  - ix. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency ,including the translation of a foreign operation into presentation currency of the reporting entity; and
  - x. Other changes.

28.2 The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

- a) The existence and amounts of restrictions on title and property, plant and equipment;
- b) The amount of expenditures recognised in the carrying amount of an item of property plant and equipment in the course of its construction;
- c) The amount of contractual commitments for the acquisition of property plant and equipment; and
- d) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of

property plant and equipment that were impaired lost or given up that is included in surplus or deficit.

## 29 FIXED ASSETS USEFUL LIVES

### INFRASTRUCTURE ASSETS

The following is the list of **infrastructure assets**, with the estimated useful life in years indicated in brackets in each case:

<b><u>Electricity</u></b>	
Power stations	(30)
Cooling towers	(30)
Transformer kiosks	(30)
Meters	(20)
Load control equipment	(20)
Switchgear	(20)
Supply and reticulation network	(20)
Mains	
<b><u>Roads</u></b>	
Motorways	(15)
Other roads	(10)
Traffic islands	(10)
Traffic lights	(20)
Street lights	(25)
Overhead bridges	(30)
Storm water drains	(20)
Bridges, subways and culverts	(30)
Car parks	(20)
Bus terminals	(20)
<b><u>Water</u></b>	
Mains	(20)
Supply and reticulation networks	(20)
Reservoirs and storage tanks	(20)
Meters	(15)
Rights (i.e., the right to draw water from a particular source to another party)	(20)
<b><u>Gas</u></b>	
Supply and reticulation networks	(20)
Reservoirs and storage tanks	(20)
Mains	(20)
Meters	(20)
<b><u>Sewerage</u></b>	
Sewer mains	(20)
Outfall sewers	(20)
Sewerage purification works	(20)
Sewerage pumps	(20)
Sewerage pumps	(15)

Sludge machines	(15)
Pedestrian malls	
Footways	(20)
Kerbing	(20)
Paving	(20)
<b><u>Airports</u></b>	
Runways	(20)
Aprons	(20)
Taxiways	(20)
Airports and radio beacons	(20)
<b><u>Security measures</u></b>	
Access control systems	(05)
Security systems	(05)
Security fencing	(03)
<b><u>COMMUNITY ASSETS</u></b>	
The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:	
<b><u>Buildings and other assets</u></b>	
Ambulance stations	(30)
Care centres	(30)
Cemeteries	(30)
Civic theatres	(30)
Clinics and hospitals	(30)
Community centres	(30)
Fire stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centres	(30)
Sports and related stadiums	(30)
Zoos	(30)
<b><u>Recreation facilities</u></b>	
Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)

Golf courses	(20)
Jukskei pitches	(20)
Outdoor sport facilities	(20)
Organs (i.e., pipe organs that are fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Flood lighting	(20)

#### **HERITAGE ASSETS**

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- a) Museum exhibits
- b) Works of art (which will include paintings and sculptures)
- c) Historical buildings or other historical structures (such as war memorials)
- d) Public statues
- e) Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement).

#### **INVESTMENT ASSETS**

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- a) Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties)
- b) Shopping centres (again developed along similar lines)

#### **OTHER ASSETS**

The following is a list of other assets, again showing the estimated useful life in years in brackets:

#### **Buildings**

Abattoirs	(30)
Asphalt plants	(30)
Cable stations	(30)
Caravan parks	(30)
Compacting stations	(30)
Hostels used to accommodate the public or tourists	(30)
Housing schemes	(30)
Kilns	(30)
Laboratories	(30)
Fresh produce and other markets	(30)
Nurseries	(30)

Office buildings	(30)
Old age homes	(30)
Quarries	(30)
Tip sites	(30)
Training centres	(30)
Transport facilities	(30)
Workshop and depots	(30)
<b><u>Office equipment</u></b>	
Computer hardware	(05)
Computer software	(3-5)
Office machines	(3-5)
Air conditioner	(5-7)
<b><u>Furniture and fittings</u></b>	
Chairs	(7-10)
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)
<b><u>Bins and containers</u></b>	
Households refuse bins	(05)
Bulk refuse bins	(10)
<b><u>Emergency equipment</u></b>	
Fire hoses	(05)
Other fire-fighting equipment	(15)
Emergency lights	(05)
<b><u>Motor vehicles</u></b>	
Ambulances	(5-10)
Fire engines	(20)
Buses	(15)
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(5-7)
Motor cycles	(03)
<b><u>Plant and equipment</u></b>	
Graders	(10-15)
Tractors	(10-15)
Mechanical horses	(10-15)
Farm equipment	(05)

Lawn mowers	(02)
Compressors	(05)
Laboratory equipment	(05)
Radio equipment	(05)
Firearms	(05)
Telecommunication equipment	(05)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverizing mills	(15)
<b><u>Other</u></b>	
Aircraft	(15)
Watercraft	(15)

\* Sum-of-units may be preferred.